



CITY OF
FORT LAUDERDALE

July 11, 2003

Mayor Jim Naugle
Vice-Mayor Carlton B. Moore
Commissioner Christine Teel
Commissioner Dean J. Trantalis
Commissioner Cindi Hutchinson

Honorable Mayor and Commissioners:

It is my privilege to present to you my proposed budget for the fiscal year beginning October 1, 2003 as required by the City Charter. The all funds budget totals \$373.8 million, which is 7.1 percent higher than the budget adopted for the FY2003. The General Fund proposed budget is \$213.9 million, which represents a 3.3 percent increase over the current year's General Fund budget. The proposed millage rate for operating and debt purposes is 5.3205 compared to the current millage rate of 5.2685. Combined with other recommended revenue adjustments, this budget would translate into a \$122 increase in the annual tax and fee bill for the average homeowner.

The Budgeting Environment in 2003

The economy has been on a three-year downslide from record growth and earnings in the late 1990's. Interest rates are at the lowest levels in 50 years. Borrowing is tempting and refinancing advantageous if done prudently. Earnings on investments and idle cash are insignificant. Real estate prices in Fort Lauderdale are soaring as loan rates become ever more affordable. The City has lowered its tax rate over the last few years as the tax base has grown. The City has favored a policy minimizing tax bills over building up reserves from economic downturns. Demands for additional security in the aftermath of September 11, 2001, improved park facilities, increased services to neighborhoods, and master planning have increased expenditures beyond the inflation rate. Additionally, contracts for employee compensation negotiated in good faith and with the intention of recruiting the best and filling authorized vacant positions have exceeded the cost of living. The decline in investment earnings in the private sector has driven up costs for insurance and medical care for employee health plans as well as workers' compensation.

Property taxes are the most significant resources available to the City that are within our control. Past trends show that the City has followed a more conservative tax policy than many other jurisdictions.

OFFICE OF THE CITY MANAGER

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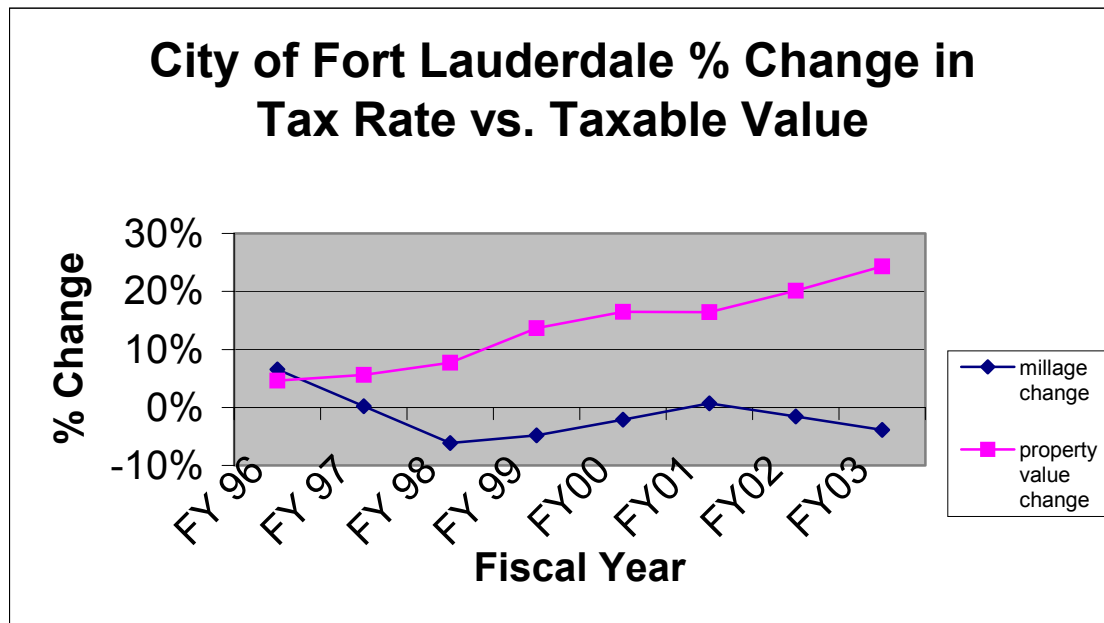
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In preparing this budget, the City is faced with some key facts:

1) The General Fund has little fund balance.

The fund balance that was carried forward from FY2002 to begin FY2003 was \$4 million for a General Fund budget of \$206 million. This amount was \$3.4 million less than the amount anticipated at budget adoption in September 2002. FY2003 is anticipated to end the year with next to no fund balance. The economic slowdown, the demand for increased security, and the lack of salary savings have contributed to the tight budget year. The City has actually seen a gradual decline in the fund balance over the last few years.

<u>Fiscal Year</u>	<u>Unreserved General Fund Balance</u>	<u>% of Revenues</u>
2002	\$ 4,027,926	2%
2001	9,007,178	5%
2000	5,968,954	4%
1999	7,328,990	5%
1998	8,268,578	5%
1997	8,139,601	6%
1996	7,948,405	6%
1995	4,750,526	4%
1994	2,065,432	2%
1993	3,845,880	3%

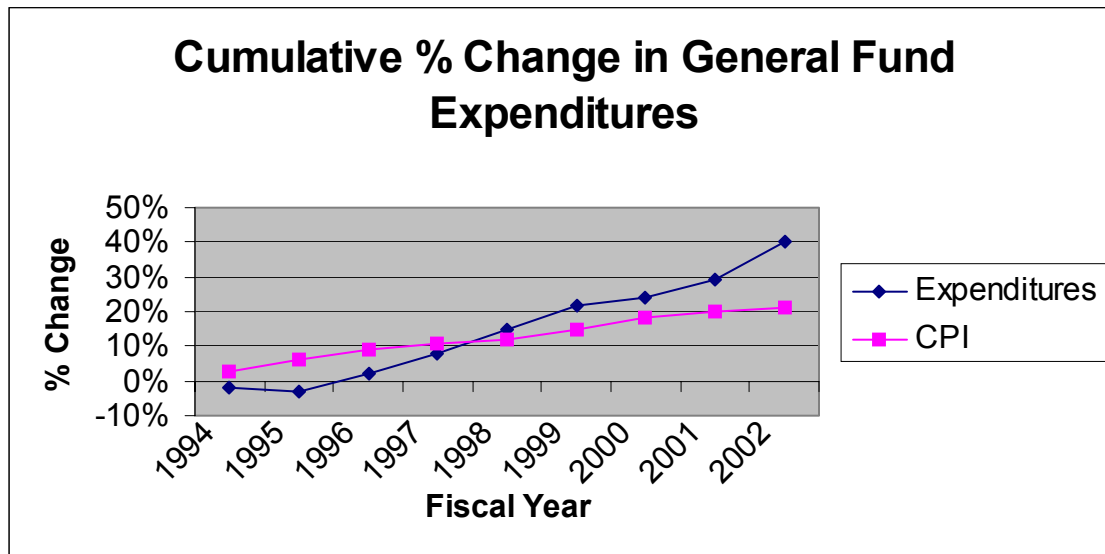
A look at revenues for the past few years shows that actual revenues in FY2001 exceeded the original budget estimate by \$3.1 million. In FY2002, actual revenues came in under budget by \$414,000. That is a \$3.5 million swing in one year. Interest alone went from \$534,000 higher

than budget to \$800,000 below original budget projections. The City's expenditures did not decrease to offset this change in resources. In fact, expenditures for public safety were \$4.6 million greater than the original adopted budget. Fund balance is a key indicator for bond ratings and stabilizing financial condition. This proposed budget seeks to increase the City's fund balance and move toward less reliance on carryforward to fund the subsequent year's budget. The working capital reserve is recommended for appropriation at a level of \$2 million next year, which is on top of the contingencies appropriation used sparingly in FY2003. Obviously, we cannot lean on fund balance for FY2004 because little is anticipated at the end of FY2003. Another observation is that the City was in the same range of percentage of General Fund revenues for fund balance ten years ago when the economy was sluggish. In 1994, the last year that the balance represented 2 percent of revenues, the City implemented layoffs in the following fiscal year.

The current year is now projected to be balanced by utilizing additional savings from departments, tapping the working capital reserve (to be replenished in FY2004 as noted above), utilizing unallocated contingencies, deferring the advance to the Community Redevelopment Agency due to the issuance of tax increment bonds later than anticipated in this fiscal year, and obtaining savings from the freezes on overtime, supplies, travel, and capital outlay.

- 2) There are major unprecedented increases in City expenditures beyond the City's control, including pension costs for police officers and firefighters increasing by 100% in one year and going up one-third for general employees. The pension increases amount to \$8 million in additional General Fund requirements for FY2004. Outside actuaries have recommended that reserves for workers' compensation should be increased by \$3 million of which \$2 million is in the General Fund. The health plan for general, management and confidential employees has generated a deficit, which must be covered. The Commission has authorized a plan to eliminate the shortfall over the next 4 years. The FY2004 proposed budget includes \$2 million in additional General Fund contribution to address this debt.
- 3) The City's property tax continues to grow. The 2003 tax base is 13.7% higher than the amount certified as final for 2002. The City has no other revenue under its control that generates this amount of revenue. As an aside, the City actually lost \$234 million in taxable value by way of adjustments by the Broward County Property Appraiser and the Value Adjustment Board process. In gross terms that translates to a loss of \$1 million in revenue that was anticipated at budget adoption last September relying on the Appraiser's estimated value in July 2002. This lost revenue was not reported to the City until nine months (July 1, 2003) into this fiscal year.

- 4) The increases in expenditures could not be accommodated within a policy of “not one penny increase” in the City’s tax bill for the average homeowner. The Commission had used that threshold the last two fiscal years, which seems unrealistic in light of service improvements within police, fire-rescue, and parks & recreation.



For example in FY2002, the City added 15 full-time equivalent positions in Parks and Recreation to support new park bond facilities, added \$500,000 for maintenance of the Police Department’s computer-aided dispatch and records management system, added \$433,000 for the purchase of personally-assigned vehicles for police officers, and added a new rescue unit in the Fire-Rescue Department at the beach at a cost of \$652,000. These service improvements are over and above the consumer price index for inflation.

The Rationale for Development of This Proposed Budget

To navigate our way through the tremendous challenges at hand and to utilize the advantages of a growing tax base, this proposed budget has been developed utilizing the values adopted by the City Commission and the City management team in the past year. These are:

- **Respect** – This budget has been developed to ensure that the City recognizes the need of every resident to receive essential City services and employees to be treated as professional civil servants. Every effort has been taken to avoid severe service reductions and employee layoffs.
- **Integrity** – Even with limited resources, the City will continue to conduct its business with honesty and fairness to all.
- **Courage** – We believe the budget proposal submitted here moves the City in the right direction for the right reasons. Given the City’s low fund

balance and insurance challenges, the proposed tax and fee increases are necessary to bolster the City's financial position.

- Teamwork – The budget exemplifies the efforts of the City staff working as a team to prepare a spending plan and the resources to fund it that can be implemented through the cooperation of the Commission and our constituents.
- Service – The services outlined in this proposed budget will be delivered in the efficient and effective manner in which Fort Lauderdale residents have come to expect.
- Creativity - Resources are included in this budget to provide for innovation in the delivery of City services. With limited resources, staff will be faced with providing services with less.
- Accountability – The budget sets a standard for the Commission and the community to use in evaluating the City's performance for the next twelve months.

In balancing this proposed budget, many options were considered. These included fine-tuning revenue projections for existing fees and charges; and continuing the scrutiny of filling authorized positions, overtime, employee travel, and purchasing capital outlay. Service reductions were only considered after we conducted this fiscal tightening. The following significant service impacts are included in this balanced budget:

- scaling back large special events in Parks and Recreation;
- closing the Stadium after spring training next year;
- reducing the General Fund contribution to the Capital Improvement Program;
- closing the pools at Sunrise Middle School and Fort Lauderdale High School and rely on the School Board to operate them if they so choose;
- eliminating two code enforcement positions and two police officer positions that were being funded with resources outside of the General Fund that have or are slated to go away in FY2004;
- decreasing the frequency of mowing medians from once every seven to ten days to once every ten to fifteen days;
- eliminating the Police mounted patrol program and reallocation of the positions to regular patrol duties.

The freezing of vacant positions will also affect service levels depending upon where the vacancies occur. In Parks and Recreation, for example, park ranger patrol will be geared toward the larger more active parks and facilities; frozen vacant positions in parks maintenance will affect the general cleanliness of Riverwalk, the Beach, and regional and neighborhood parks; and reductions in parks capital funding will limit work to emergency repairs. Additionally, the Commission's requests for a transportation planner and an historic preservation planner have not been accommodated in this proposed budget. We will assign these specific tasks to existing staff and evaluate their work priorities. It was only after this budget analysis that resource adjustments were discussed.

Resource Adjustments

The proposed budget calls for the following adjustments in resources in order to maintain critical service levels:

- A 5% increase in Water and Sewer rates including 2.5% for inflationary cost increases and 2.5% for the continuation of the 2011 master plan which would increase the annual cost for the average customer using 10,000 gallons of water per month by \$2.65 or \$31.80 annually.
- A 5% increase in stormwater fees to address stormwater management needs which would increase the annual cost for the Fort Lauderdale homeowner with one residential dwelling unit by \$1.41 per year.
- An increase in the fire special assessment fee from \$42 to \$63 per year per dwelling unit with no offset in the property tax millage rate is proposed. This fee increase would provide for the additional needs that Fire-Rescue has identified for next year including the financing of new apparatus and the beginning of a replacement reserve for those vehicles (4 Engines, 1 Quint, 1 fire boat, and 1 hazmat trailer), replacement of bunker gear and self-contained breathing apparatus, purchase of mobile data equipment, and continued funding for the Emergency Preparedness Coordinator that was funded with a grant initially.
- A 10% increase in sanitation fees to cover inflationary increases in collections and disposal costs, offset loss of investment earnings, and ensure compliance with sanitation revenue bond covenants, which translates into a \$34.74 increase in the annual cost for the owner of one dwelling unit. This is the first increase in Sanitation fees since 2000. Additionally, the charge for the trash transfer station would be increased from \$10 to \$15 to partially offset the \$2 million subsidy currently provided by other Sanitation customers.
- An 12.78% increase in property taxes resulting in an increase of \$33.13 for the average single-family homeowner in Fort Lauderdale with a \$25,000 homestead exemption. Such a rate provides the Commission with some flexibility for further adjustment downward at the public hearings in September. Without this level of adjustment, further service impacts would occur that would also result in employee layoffs. These include service adjustments ranging from closing the jail to economic development to planning and capital improvements.

The total increase for the average homeowner with these proposed changes would be \$122.13 on an annual basis.

Compensation

The City continues to be in negotiation with all three bargaining units of City employees that represent 78 percent of all City employees. The current contracts expire September 30, 2003. Due to the severity of the current situation and recent history of paying for increases greater than the rate of inflation, this budget does not include any amount

within the proposed contingency account for compensation. All employee groups have received higher wage increases over the last few years and the cost of living increases. The fact that layoffs would be avoided with the proposed tax increase, I encourage the labor unions to limit their requests for compensation increases this year. The City has been generous when resources have been available; however, this is not the year to be demanding new forms of benefits when increases are proposed for our taxpayers. The proposed budget ensures that the retirement benefits for City employees remain sound even in this era of unprecedented cost increases.

The proposed budget assumes other adjustments to employee compensation in the amount of \$2.4 million that would require negotiations with the bargaining units. For example, this could translate into a one-day per quarter furlough for all employees.

Changes in Employee Salaries Compared to Inflation Since 1996

Consumer Price Index	15.6%
Non-Bargaining Unit	
Management Categories I&II	26.7%*
Management Categories III-V	26.5%
Confidential	26.5%
FOPA	22.5%
IAFF	27.5%**
FOP	
Police Officers	24.6%***
Police Sergeants	33.4%***

*These employees received half the increase of the rest of the employee group in 1998 and caught up with an additional increase in 2000.

**Only Emergency Medical Technicians and Paramedics received raises in 1999.

***Figures represent salary increases only and do not include personally assigned vehicles.

Conclusion

This is a difficult year for budget balancing. Across the nation and the state, public entities of all sizes are facing the same types of pressures as the City of Fort Lauderdale. We have carefully prepared a spending plan that addresses fiscal pressures that were beyond the control of the City, assures the continuation of critical services, assists with remedies for areas of need such as the City's Insurance Fund, and avoids employee layoffs.

Development and implementation of City policy is the focal point of allocating public resources in the budget process but it does not stop at the end of the fiscal year. It is a continuing process that is more than just an arithmetic exercise. We strive to balance the interests of all the stakeholders of Fort Lauderdale – residents, business owners, tourists, and employees.

As I recommended last year, I urge us to develop a long-range financial plan especially for the general fund. I have begun a dialogue with the Budget Advisory Board to outline

such a task. I believe that such strategic planning is essential for the long-term fiscal stability of the City. With the adoption of this budget and the approval of a long-range plan before next year's budget process, we can proceed toward a stronger financial position and a more optimistic outlook for the future.

The proposed hearing dates for budget adoption are the meeting dates for regular Commission meetings in September, the 3rd and the 16th. Staff is prepared to elaborate further on the proposed budget as the Commission may require. I appreciate the effort of the executive management team in the development of this spending plan.

Sincerely,

F.T. Johnson
City Manager